

Message Text

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ACTION EA-07

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P R 090647Z JAN 74

FM AMEMBASSY JAKARTA

TO USDOC WASHDC

INFO SECSTATE WASHDC PRIORITY 236

AMEMBASSY DACCA PRIORITY

AMCONGEN HONG KONG

AMEMBASSY MANILA

AMEMBASSY TAIPEI

UNCLAS JAKARTA 0315

USDOC PASS VAN GESSEL AND MEPD

HONG KONG PASS RAND

DEPT PASS EXIM

DACCA PASS MCCUNE (TVA)

E.O. 11652: N/A

TAGS: BEXP, BMEP, ID

SUBJ: MAJOR TRADE OPPORTUNITY (MTO): FERTILIZER

REF: (A) JAKARTA 13181; (B) MANILA 13417; (C) MANILA 12911;

(D) JAKARTA A-266, DEC. 21, 1973

1. SUMMARY: CURRENT OUTLOOK WORLD FERTILIZER MARKET IS TRIGGERING RAPID DEVELOPMENT OF OPPORTUNITIES FOR NEW FERTILIZER PRODUCTION FACILITIES IN INDONESIA. EMBASSY RECOMMENDS THAT USDOC TAKE INITIATIVE IN COOPERATING WITH U.S. FIRMS TO AGGRESSIVELY DEVELOP U.S. PARTICIPATION-BOTH SALE OF EQUIPMENT, ENGINEERING AND DESIGN/CONSTRUCTOR SERVICES, AND INVESTMENT IN PRODUCTION FACILITIES -- THAT WILL LOOSEN HOLD OF JAPANESE ON ASIAN MARKET AND SECURE FUTURE NITROGEN SUPPLIES FOR U.S. CONSUMERS. END SUMMARY.

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2. INDONESIA OFFERS NATURAL GAS FEEDSTOCK FOR PRODUCTION EITHER OF LIQUID AMMONIA OR SOLID NITROGEN FERTILIZERS. INDONESIANS ALREADY HAVE PROJECTS UNDERWAY TO MANUFACTURE NITROGENOUS FERTILIZERS FROM THIS GAS FOR DOMESTIC REQUIREMENTS. SHORTAGES IN OTHER ASIAN COUNTRIES ARE STIMULATING INTENSE INTEREST IN PRODUCTION FOR INDONESIAN EXPORT AS WELL. UNCER-

TAINTIES ABOUT FEEDSTOCK AVAILABILITY AND PRICING ELSEWHERE IN THE WORLD MAKE AVAILABILITIES OF GAS IN RELATIVELY STABLE INDONESIAN ENVIRONMENT PARTICULARLY ATTRACTIVE FOR FOREIGN INVESTORS. EMBASSY EXPECTS INDONESIAN GAS PRICES (FOB) TO CONTINUE TO BE ATTRACTIVE RELATIVE MOST OTHER SOURCES. SITUATION APPEARS OFFER RARE "WINDOW" THROUGH WHICH ALERT AND SPEEDILY RESPONSIVE U.S. FIRMS MAY ENTER, WITH A CHANCE (A) TO HELP MEET US NITROGEN SHORTAGE AND (B) BREAK THROUGH EUROPEAN-JAPANESE DOMINATION OF NITROGEN SUPPLIES IN WORLD TRADE IN RECENT YEARS.

3. EMBASSY/USAID WITH COMMERCE MEPD HAVE DONE GROUNDWORK FOR MAJOR U. S. PARTICIPATION IN INDONESIAN NITROGEN DEVELOPMENT. IN OCTOBER EMBASSY AND MEPD'S ATKINS OBTAINED FROM PIVOTAL GOI OFFICIAL, PRESIDENT DIRECTOR IBNU SUTOWO OF STATE OIL COMPANY PERTAMINA, EXPRESSION OF INTEREST IN US-COMPANY PARTICIPATION IN NITROGEN PRODUCTION. IBNU INDICATED WILLINGNESS CONSIDER WHOLLY-OWNED FOREIGN INVESTMENTS OR JOINT-VENTURE PARTNERSHIP WITH PERTAMINA. SUBSEQUENTLY, POSSIBILITY FOR US-CONTRACTOR PARTICIPATION IN GOI AND FOREIGN-INVESTOR PROJECTS, NOW IN VERY EARLY STAGES OF CONSIDERATION, HAVE ALSO EMERGED. EMBASSY/ USAID FORWARDING EXTENSIVE DOCUMENTATION TO MEPD TO DEMONSTRATE SCOPE AND PACE OF DEVELOPMENT IN WHICH U.S. FIRMS MIGHT BECOME INVOLVED. LATER, DATA ON ALTERNATIVE PROJECT COSTS BASED ON DIFFERENT TYPES FEEDSTOCK FOR DIFFERENT COUNTRY SITES ALSO EXPECTED TO BE AVAILABLE.

4. TO STIMULATE INTEREST AND DECISIONS BY APPROPRIATE SEGMENTS OF U.S. INDUSTRY ON OPPORTUNITIES EMERGING HERE, WE CONSIDER IT ESSENTIAL THAT USG TAKE INITIATIVE IN PULLING TOGETHER JOINT USG-INDUSTRY TEAM WHICH WOULD COME TO JAKARTA FOR ON-SPOT INVESTIGATION AND DISCUSSIONS. WOULD URGE PARTICIPATION OF SEVERAL FIRMS BE SOUGHT. SEVERAL SEPARATE PROJECTS ARE LIKELY TO BE INVOLVED TO SUPPLY TAIWAN,*PHILIPPINES, AND PART OF U.S. REQUIRE-
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MENTS. ASSUMING THAT TYPICAL PROJECT WOULD BE 1000-1500 TONS-PER-DAY AMMONIA PLANT PLUS COMPANION UREA UNITS IN SOME CASES, AT \$120 MILLION AND OVER PER COMPLEX, EXPORT POTENTIAL FOR US EQUIPMENT AND SERVICES APPEARS VERY SUBSTANTIAL. USG INPUT WOULD HELP MAINTAIN MOMENTUM WHICH WE SEE AS ESSENTIAL IN DEVELOPMENT OF PROPOSALS. THIS APPROACH NEED NOT PRECLUDE SEPARATE INVESTOR OR CONTRACTOR VISITS IF ANY FIRMS ARE PREPARED TO MOVE BEFORE USG-INDUSTRY TEAM CAN BE MOBILIZED.

5. PER DISCUSSIONS HERE WITH ATKINS IN DECEMBER, EMBASSY ENVISAGES FOLLOWING ESSENTIAL ACTIVITIES IN JAKARTA: ADVANCE VISIT FIRST WEEK FEBRUARY AT LATEST BY GOVT-INDUSTRY TEAM. WE URGE THAT TEAM INCLUDE COMPANY OFFICIALS THOROUGHLY GROUNDED IN PROJECT DEVELOPMENT WITH ENOUGH SENIORITY TO ENLIST TOP

MANAGEMENT SUPPORT. THIS TEAM TO BE FOLLOWED BY TOP-MANAGEMENT NEGOTIATING VISIT TO MAKE DETAILED PRESENTATION -- INCLUDING OPTIONS -- IN LATE MARCH.

6. THIS EXTREMELY TIGHT SCHEDULE DICTATED BY RAPID EVOLUTION INDONESIAN PLANS FOR FERTILIZER DEVELOPMENT. INDONESIANS FEEL IT ESSENTIAL TO MOVE QUICKLY LEST OTHER PRODUCERS PREEMPT WORLD NITROGEN EXPANSION OPPORTUNITIES IN ABSENCE OF SERIOUS EARLY BID BY INDONESIA. USAID FERTILIZER EXPERT PAUL STANGEL EXPECTS MAJOR FERTILIZER INDUSTRY DECISIONS GOVERNING FUTURE FERTILIZER CAPACITY TO BE TAKEN WITHIN THE NEXT 30-60 DAYS. THERE ARE ALREADY PROPOSALS BY TAIWANESE AND PHILIPPINES TO DEVELOP FACILITIES HERE, AND JAPANESE ARE MOVING TO PROTECT THEIR EXISTING DOMINATION SOUTHEAST ASIAN FERTILIZER MARKET. WE RECENTLY LEARNED OF COMPREHENSIVE JAPANESE STUDY FOCUSED ON THEIR FERTILIZER STRATEGY IS IN ADVANCED STAGE OF PREPARATION.

7. SCHEDULE PROPOSED IN PARA 5 ALSO WOVEN AROUND FOLLOWING CURRENT DEVELOPMENTS:

A) GOI TO RECEIVE SPECIAL TVA STUDY IN MID-MARCH; STUDY IS EXPECTED TO RECOMMEND DEVELOPMENT INDONESIAN UNCLASSIFIED

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NITROGEN EXPORT CAPABILITY. BEFORE THEN WE EXPECT FOREIGN COMPETITORS TO BE ADVANCING NITROGEN EXPORT PROJECT PROPOSALS. ALSO BEFORE THEN TVA WILL COMPLETE WORLDWIDE FERTILIZER MARKET PROJECTIONS AS BACKGROUND FOR RECOMMENDATIONS TO INDONESIA. WE HOPE OBTAIN AGREEMENT TOP TVA FERTILIZER EXPERT (MCCUNE) TO BRIEF ADVANCE TEAM PROPOSED PARA. 5 ABOVE ON TVA FINDINGS IN WASHINGTON LATE JANUARY.

B) USE*D'S TVA FERTILIZER ADVISOR STANGEL, WHOSE GUIDANCE AND CONTACTS ARE VERY IMPORTANT CANNOT REMAIN IN JAKARTA BEYOND FEBRUARY 8-9, WHEN HE MUST LEAVE FOR EXTENDED PERIOD.

ADVANCE TEAM WOULD LOSE CONSIDERABLE ADVANTAGE IF VISIT IS DELAYED BEYOND FIRST WEEK FEBRUARY FOR REASONS INDICATED ABOVE. THIS DATE WOULD ALSO PERMIT TIME FOR TEAM TO PREPARE PROPOSALS TO PRESENT TO GOI WHEN ITS INTEREST IN FERTILIZER PLANNING MID-MARCH WILL BE AT PEAK.

7. WE HAVE UNPARALLELED OPPORTUNITY TO MOVE AHEAD HERE, BUT ONE THAT COULD BE LOST UNLESS WE ARE ABLE TO MOVE SWIFTLY AND DECISIVELY. THEREFORE URGE USDOC UNDERTAKE ADMITTEDLY HEAVY BURDEN OF MOUNTING EFFORT OF THIS MAGNITUDE IN SHORT TIME FRAME PROPOSED.

8. ADDITIONAL INFORMATION AND DETAILED RECOMMENDATIONS FOLLOW

SEPTEL.

GALBRAITH

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